

RECONCILIATION BULLETIN

TOPIC: Year-End Reconciliation Bulletin 06-01	ISSUE DATE: 5/15/06
TITLE: 2006 Encumbrance Processing and Year-End Review	REVISION DATE:
AUTHORIZED BY: Cheryl Thompson, DHFS Reconciler Bureau of Fiscal Services	PAGE 1 OF 15

**BACKGROUND**

The rules pertaining to the SFY 2006 close-out concerning encumbrance processing and year-end review are similar to those utilized in previous years. Please review this document carefully to ensure close-out procedures are followed and appropriate funding is carried forward to pay SFY 06 obligations during SFY 2007.

1. Due dates for SFY 06 Reconciliation:

EVENT	DUE DATE SFY 06
Key SFY 06 purchase orders into FMS.	Wednesday, May 31, 2006 For exceptions, see Item 7.
Key SFY 06 travel vouchers into FMS.	Friday, June 23, 2006
Key invoices--direct payments, including contingent fund reimbursements. See Item 7.	Thursday, June 29, 2006
Key SFY 06 invoices pertaining to purchase orders into FMS.	Thursday, June 29, 2006
Complete reconciliation/close-out and file forms with DOA.	Friday, August 4, 2006

- Staff responsible for the activities described within this bulletin may be located in BFS, the divisions, the institutions, or some combination thereof. Duties performed for divisions by centralized staff will be performed by those staff, unless otherwise agreed between BFS and the divisions.
- The threshold for purchase orders, which do not need to be routinely justified to, and reviewed by, BFS, is \$5,000. The higher threshold is expected to reduce the volume of copying and justification required.

4. There will be two purchase order reports used for closing out SFY 06.
  - a. The first report will contain purchase order information as of May 31, 2006 and will be generated with the normal May reports. This report will be available on EOS as of June 1, 2006. This report should be used to conduct the initial purchase order review and to make necessary adjustments to FMS, i.e. canceling and closing purchase orders no longer needed or not eligible for carry forward. Make any adjustments by June 29, 2006. In addition, this information will be e-mailed to each institution business office as an Excel spreadsheet.
  - b. An additional outstanding purchase order report will be prepared as of close of business on June 29, 2006. This report will reflect all adjustments made by June 29, 2006. This information will be sent to each institution business office via e-mail. The information will be in an Excel format.
5. Copies of all purchase orders greater than \$5,000 for GPR, Annual PRO and PRS appropriations, and copies of all purchase orders regardless of amount or funding source issued after May 31, 2006 and not liquidated by June 29, 2006, are to be sent to Jean Gevelinger, BFS, to ensure receipt by July 6, 2006. Copies of any purchase orders less than \$5,000 are to be provided to BFS upon request.
6. The Excel spreadsheet, provided per 4.a. with the amounts requested to be carried forward, should be returned via e-mail to Jean Gevelinger in BFS not later than 7/1/06. Payments during the month of June 2006 that reference SFY 06 purchase orders will reduce the encumbrances carried forward. As in prior years, however, payments made after June 29, 2006 that reference a purchase order proposed to be carried forward from SFY 06 are to be coded as a new year, SFY 2007, transaction and use the funding carried forward.
7. It is important that all organizations comply with DHFS procurement directives concerning the issuance of purchase orders.

Special directives concerning the recording of purchase orders on FMS during June 2006, the payment of invoices pertaining to these orders, and the carry forward or non carry forward of encumbrances are as follows:

- a. Purchase Orders pertaining to the approved exemptions (Attachment II):
  - 1) May be entered in FMS during June 2006--no later than June 29, 2006.
  - 2) May be liquidated during June 2006 as a result of an invoice payment in June, provided the goods and services were received.
  - 3) May be carried over to SFY 2007 if payment cannot be made by June 29, 2006. Payment will be a SFY 2007 transaction.

- b. Purchase orders issued after May 31, 2006 that require specific BFS/DOA approval to be a SFY 06 encumbrance:
  - 1) If approved, may be entered in FMS during June 2006--no later than June 29, 2006.
  - 2) If approved, may be liquidated during June 2006 as a result of an invoice payment in June, provided the goods and services were received.
  - 3) If approved, the encumbrance may be carried over to SFY 2007 if payment cannot be made by June 29, 2006. Payment will be a SFY 2007 transaction.
- c. Purchase orders issued after May 31, 2006, which do not pertain to the DOA exemption request or a specific BFS/DOA approval request:
  - 1) May not be entered in FMS.
  - 2) SFY 06 funding may be used to liquidate these purchase orders if the payment is an appropriate SFY 06 expenditure and the payment is keyed on FMS by June 29, 2006 as a direct pay invoice.
  - 3) Nothing will be carried forward to SFY 2007, as no encumbrance is in the accounting system.
- 8. Payments to vendors, for which a purchase order was issued prior to May 31, 2006, may be paid as a SFY 06 payment on or before the cutoff date of June 29, 2006. Payments made after June 29 will be coded as SFY 2007, referencing the purchase order, and charged as SFY 2007, using the funding carried forward from SFY 06.
- 9. Organizations are reminded that encumbrances carried forward from a prior year can only be used to pay for those services indicated on the respective purchase order. See Procedure 2.b. below for additional guidance.

**USUAL AND CUSTOMARY REVIEW OF PURCHASE ORDERS AT YEAR END**

- 1. Follow specific directions in the Attachments with the following exceptions:
  - a. DOA policy recommends routine closing of small purchase orders at year-end. DHFS policy is to carry over any amount, if appropriate for carryover, that remains on a purchase order.
  - b. Review Accounting Policy & Procedures Bulletin **PURCHASING 1.0** for procedures to be followed in establishing an encumbrance which is specifically exempted from the purchase order requirements.
- 2. Please review carefully DHFS outstanding purchase orders and make all required corrections:
  - a. Make sure that all SFY 06 purchase orders that were referenced on paid vouchers, but not entirely liquidated, are identified and properly carried forward or deleted.
  - b. Review all purchase orders coded to SFY 05, or earlier dates, in detail to ascertain their validity at this time.

- (1) If material and services have been received, and you have not been invoiced, please contact the vendor in order to secure the appropriate invoice and pay the bill, thus liquidating the obligation prior to June 29, 2006.
- (2) If material and services have not been received, determine if they are still required; if so, initiate action with the vendor so that receipt of the material or services and payment of the invoice can be accomplished prior to the close of the current fiscal year.
- (3) Bear in mind that any purchase order which has been carried forward into SFY 06 from a previous fiscal year, and which you intend to carry forward into the subsequent year (SFY 2007), will receive very close scrutiny by this office, DOA, and LAB. A justification must be submitted for purchase orders issued prior to July 1, 2005 which may be carried forward through SFY 06 into SFY 2007. Therefore, please submit a copy of the purchase order and written justification for these purchase orders (excluding Federal funds) to the Bureau of Fiscal Services, Attention: Jean Gevelinger, no later than June 7, 2006.
- (4) Unused funds carried forward from one year to another may be used only for the purpose for which they were carried forward. Users shall close all completed purchase orders issued prior to July 1, 2005, lapsing any unused balances.

**CONTACT PERSONS**

Questions concerning this bulletin may be directed to your respective Lead Accountant or Jean Gevelinger.

**ATTACHMENTS**

ATTACHMENT I: *DOA External Accounting Manual, Section IV Encumbrances, Subsections 6-9.*

ATTACHMENT II: Special DHFS purchase order processing procedures during the period from June 1, 2006 through June 29, 2006.



## Wisconsin State Controller's Office

### WiSMART Bulletin # 220

Last Update: 5/20/1999

#### YEAR END ENCUMBRANCE POLICY

The following is a slightly modified version of the annual encumbrance letter that has been issued in prior years. The only change from FY98 is the definition of "last business day" as it relates to the encumbrance deadline. This information will eventually be incorporated in the State Accounting Manual. Until that time, refer to this bulletin for guidance. *(Note: these procedures pertain to all funds, except funds 490 and 495.)*

The last date that encumbrances will be accepted in WiSMART for any fiscal year is the last business day in May, for purposes of this bulletin the last business day does not include the extended Saturday hours when WiSMART is available. For the remainder of this document, the last day encumbrances are accepted in WiSMART shall be referred to as the "encumbrance deadline". Each year, the encumbrance deadline will be included on the State Controller's Office Calendar.

Goods or services relating to normal operations of the agency that are expected to be received and consumed before June 30th can be encumbered to the current fiscal year by the encumbrance deadline. This includes items such as supplies, printing, copying, repairs, emergency situations and other services where the work will be performed or the goods received and consumed by June 30th.

Except in specific instances, noted elsewhere in this document, all encumbrances issued after the encumbrance deadline should be coded as transactions for the following fiscal year.

The WiSMART system has been modified to require an override by the State Controller's for any new or increased purchase orders for the current fiscal year processed after the encumbrance deadline. Any new or increased purchase orders entered after the encumbrance deadline will reject with an error message stating SCO approval is required. Agencies must submit written requests to the State Controller for approval of all current fiscal year purchase orders after the encumbrance deadline. Upon approval of the written requests, the State Controller's Office will apply the necessary overrides to allow all approved purchase orders to process. Agencies that previously submitted requests and received approval to monitor and review their own purchase orders may continue to use those prior year waiver memos. These blanket waiver requests do not need to be submitted to the State Controller's Office each year.

Agencies may continue to issue purchase orders during the month of June if they do so for the purpose of placing an order, but not encumbering funds on the State's accounting system, WiSMART. For example, many fast turn-

around orders (quick copy, mail, etc.) are initiated by means of a purchase order. The purchase order is used primarily to record the details of the order, such as order quantity and materials, but not necessarily to encumber funds. The work done is expected to be completed and consumed in June. In these instances, the purchase order can be used to place the order but no encumbering of funds should be done. When the work is completed in June, a direct charge can be transacted to charge the expense to the current fiscal year. If the work is not completed until July, the direct charge should be to the following fiscal year.

## **BACKGROUND/AUTHORITY**

Wisconsin Statute 16.52(6) provides the basis for charging commitments (purchase orders, contracts, etc.) to fiscal years:

Except as authorized in s. 16.74, all purchase orders, contracts, or printing orders shall, before any liability is incurred thereon, be submitted to the secretary for his or her approval as to the legality of purpose and sufficiency of appropriated and allotted funds therefor. In all cases the date of the contract or order governs the fiscal year to which the contract or order is chargeable, unless the secretary determines that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgetary intent. Upon such approval, the secretary shall immediately encumber all contracts or orders, and indicate the fiscal year to which they are chargeable.

An encumbrance is the instrument used to reserve current year budget authority on unperformed contracts or orders for goods or services. Note that a reservation of budget authority cannot be made if the intent of the contract or order is to avoid lapsing budget authority or to "circumvent budgetary intent", even if a contract or order exists prior to the end of the current fiscal year.

The DOA secretary has the authority to make the final determination of intent for contracts or other orders.

## **EXCEPTIONS TO THE GENERAL ENCUMBRANCE POLICY**

The following exceptions to the general encumbrance policy are provided:

1. Badger State Industries. As in past years, orders for necessary items issued prior to the encumbrance deadline to Badger State Industries can be encumbered against current fiscal year funds even if the items are not expected to be received by June 30th.
2. Special Circumstances. An agency may encounter an unforeseeable circumstance after the encumbrance deadline (but before June 30) which, if known by the encumbrance deadline would have resulted in a proper encumbrance. In these rare instances, a written request must be addressed to the State Controller describing the unique circumstance.

The State Controller will decide the eligibility for encumbering each item on a case-by-case basis.

3. **Business Process.** Agencies may have a unique ongoing business process, such as food purchase operations for institutions, that necessitates the creation of purchase orders subsequent to the encumbrance deadline. A written waiver request must be made to the State Controller describing the business process and stating the need to create purchase orders. **The State Controller will accept business process waiver requests submitted for Fiscal Year 1996 year-end for years subsequent to FY96, provided they haven't changed. New waiver requests must be made if the process changes in any way.**

The State Controller will decide the eligibility for encumbering funds for each business process. If approved, all transactions recorded through the business process may be encumbered without further approval, provided all "budgetary intent" rule is not circumvented.

### YEAR-END REVIEW OF ENCUMBRANCES

Agencies are reminded that provisions in the DOA State Accounting Manual (Vol. 1, Section IV, Subsections 6 to 9) that are not revised by this memo apply to carryover encumbrances. All encumbrances must meet these conditions to be eligible for carryover to the next fiscal year, no matter when the encumbrance was issued (in the current fiscal year or a prior fiscal year). For example, if an agency has a recurring relationship with a vendor for contractual services, funds can be carried forward to the new fiscal year only to the extent necessary to pay for those services actually received on or before June 30th. Services received in July cannot be charged to an encumbrance carried over from the previous fiscal year.

Agencies should establish a procedure to review all encumbrances. This review is necessary to ensure compliance with the guidelines established in the DOA State Accounting Manual. Also, refer to the next section relating to the reversion of budget authority for unused prior year encumbrance balances.

Contrary to the instructions in the State Accounting Manual agencies should not submit purchase orders to the State Controller's Office (SCO) for review in May or June. Purchase orders are either entered directly or interfaced into the WiSMART system by each agency. Any review by SCO of outstanding purchase orders will be conducted on a sample basis. Agencies may be asked to supply supporting documentation for their encumbrances.

Further information will be provided prior to year-end describing the purchase order roll-forward, encumbrance reconciliation and encumbrance referencing procedures to be used in the months of July and August.

Reverting Appropriation Authority for Prior Year Encumbrances (Applies to all annual and biennial appropriations regardless of fund source)

Agencies will again be required to revert to the originating fund, budget authority that has been released by canceling all or a portion of prior year encumbrances, or by liquidating prior year encumbrances for less than the original amount. The amount to be reverted is the remaining unliquidated

balance amount, or the amount remaining prior to cancellation. A transaction reverting the budget authority must be made in each case where the liquidation or cancellation amount exceeds \$500 per encumbrance. (Please note that no unliquidated/canceled prior year encumbrances may be re-encumbered or expended in the current fiscal year. However, only the unliquidated/canceled prior year encumbrances above \$500 are to be reverted.) For example, if in FYX1, an agency made a final payment of \$450 on an encumbrance created in FYX0 having a balance of \$1,000, the agency must prepare an AP transaction moving the remaining budget authority of \$550 to reverted budget authority.

A special transaction ID (RVT) should be used for the transaction to revert unused budget authority. Also, an "R" must be entered in the REV/BCB/BBSA IND field on the AP transaction screen.

## **END OF YEAR CLASSIFICATION OF ENCUMBRANCES**

It is important to note that an encumbrance is an unperformed contract or purchase order. A contract that has been performed (completed), but not yet paid is technically not an encumbrance, but an account payable. This distinction is important for financial reporting purposes. In practice, this reclassification of encumbrances to accounts payable occurs when agencies schedule payments of invoices in the 13th month of the fiscal year and references an encumbrance. The accounting system automatically creates the reclassification entry to the accounts payable account. This reclassification will not occur if the agency fails to schedule a payment because of a late invoice or a delay in processing payments. Agencies should make every effort during the month of July to obtain and enter for payment all invoices for goods or services received on or before June 30.

The following is a summary of carryover encumbrance provisions.

## **SUMMARY OF CARRYOVER ENCUMBRANCE PROVISIONS**

These guidelines are intended to clarify some of the situations that have caused problems in the past when determining what is eligible for an encumbrance at the end of the fiscal year.

1. Purchase orders or encumbrance of funds for "Sundry Vendors", "Misc. Vendors", "Vendors Unknown", etc. are not allowed for carryover to the subsequent fiscal year. There must be a contract or order with a known vendor/party as of the encumbrance deadline in order for funds to be carried over to the subsequent fiscal year. In addition, the conditions for carryforward of encumbrances as specified in the DOA State Accounting Manual (Vol. 1, Section IV, Subsections 6 to 9) must be met.
2. If an agency has a program where a number of payments are made to many payees, a single purchase order or encumbrance may be issued to "Vendors Listed Here-in". If a specific list of payees and a valid obligation (liability) exists as of the encumbrance deadline this item may be carried over to the subsequent fiscal year.
3. Agencies that are involved in a bid process where no specific vendor has been selected by the encumbrance deadline may not encumber

current fiscal year funds for this purpose.

4. It is not acceptable to encumber the balance in the appropriation for carryover to the next fiscal year unless a valid obligation to specific vendors exists. For example, GPR appropriations used as matching funds for federal programs may not automatically be carried over to the subsequent fiscal year to match the federal fiscal year.
5. All blanket orders must be liquidated at the end of the fiscal year.
6. Agencies should consider routinely closing small purchase orders at the end of each fiscal year. These items often result from failure to fully liquidate a purchase order when no remaining obligation exists. Routine closing of these purchase orders eliminates unnecessary encumbrances and the need to evaluate each small dollar purchase order.
7. Any purchase orders having no activity in the past 12 months should be canceled at fiscal year end.
8. Appropriations that have specific statutory authority to carryover funds to the subsequent fiscal year may do so in accordance with the specific statutory provision by means of an encumbrance.
9. Funds carried over to a subsequent fiscal year may only be used for the purpose carried over. Balances remaining on prior year purchase orders after liquidation of the actual cost incurred should be liquidated at the end of the fiscal year (during July) and may not be used to cover overdrafts in the current year. These amounts must be lapsed if the appropriation requires lapsing of unused balances. (Note: encumbrances may be canceled prior to July if balances exceeding \$500 are reverted with an AP entry.) For example, if \$1,000 was carried over from fiscal year 19X1 and only \$450 was needed during the fiscal year to satisfy the contract. The remaining \$550 should remain as an encumbrance until the end of fiscal year 19X2 at which time it should be liquidated and lapsed. Alternatively, the remaining balance may be reverted before July, since it exceeds \$500, by creating an AP transaction to move budget authority to reverted budget authority.
10. Encumbrance carryover for non-aid contracts with vendors having a recurring contractual relationship with an agency should be limited to the amounts needed to pay for goods or services actually provided by the vendor before July 1. Services provided by the vendor on or after July 1 should not be charged to the carryover encumbrance even if a balance remains.

For additional information on encumbrance carryover refer to the DOA State Accounting Manual (Vol. 1, Section IV, Subsections 6 to 9).

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E-mail us at: [scoweb@doa.state.wi.us](mailto:scoweb@doa.state.wi.us)

Department of Administration

**STATE OF WISCONSIN  
STATE ACCOUNTING MANUAL**

<b>SECTION:</b>	IV Encumbrances	<b>EFFECTIVE DATE:</b>	July 1, 1993
<b>SUB-SECTION:</b>	6 - Year-End Carryover	<b>REVISION DATE:</b>	July 1, 1993
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**YEAR-END CARRYOVER OF ENCUMBRANCES**

Wisconsin Statute 16.52 (6) states,

"Except as authorized in s. 16.74, all purchase orders, contracts, or printing orders shall, before any liability is incurred thereon, be submitted to the secretary for his/her approval as to the legality of purpose and sufficiency of appropriated and allotted funds thereof. In all cases the date of the contract or order governs the fiscal year to which the contract or order is chargeable, unless the secretary determines that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgetary intent. Upon such approval, the secretary shall immediately encumber all contracts or orders, and indicate the fiscal year to which they are chargeable."

Encumbrances reserve current year budget to recognize the existence of legally enforceable commitments on unperformed contracts for goods or services. If the intent of the contract or order is to avoid lapse or circumvent budgetary intent then the current fiscal year funds may not be carried over to pay the contract or obligation even if a contract exists as of June 10th.

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**STATE OF WISCONSIN  
STATE ACCOUNTING MANUAL**

<b>SECTION:</b>	IV Encumbrances	<b>EFFECTIVE DATE:</b>	July 1, 1993
<b>SUB-SECTION:</b>	7 - Carryover of Encumbrance	<b>REVISION DATE:</b>	July 1, 1993
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**CARRYOVER ENCUMBRANCE PROVISIONS**

Purchase orders or encumbrances of funds for "Sundry Vendors", "Misc. Vendors", "Vendors Unknown", etc. are not allowed for carryover. There must be a contract or order with a known vendor/party as of June 10th in order for funds to be carried over to the following fiscal year.

If an agency has a program where a number of payments are made to many payees, a single purchase order or encumbrance may be issued to "Vendors Listed Here-in". If a specific list of payees and a valid obligation exists as of June 10th, 1993 this item may be carried over to FY94.

Agencies that are involved in the bid process where no specific vendor has been selected by June 10th may not encumber current year funds for this purpose.

It is not acceptable to encumber the balance in the appropriation for carryover to the next fiscal year unless a valid obligation to specific vendors exists. For example, GPR appropriations used as matching funds for federal programs may not automatically be carried over to the following fiscal year to match the federal fiscal year.

All blanket orders should be liquidated at fiscal year end. In addition, agencies should consider routinely closing small purchase orders at the end of each fiscal year. These items often result from failure to fully liquidate a purchase order when no remaining obligation exists. Routine closing of these purchase orders eliminates unnecessary encumbrances and the need to evaluate each small dollar purchase order. Additionally, any purchase orders that have had no activity in the past 12 months should be closed at fiscal year end.

Appropriations that have specific statutory authority to carryover funds to the subsequent fiscal year may only do so in accordance with the specific statutory provision.

Funds carried over to a subsequent fiscal year may only be used for the purpose carried over. Balances remaining on prior year purchase orders after liquidation of the actual cost incurred should only be liquidated at the end of the fiscal year and must not be used to cover overdrafts in the current year. These amounts must be lapsed if the appropriation requires lapsing of unused balances.

For personal contractual services, encumbrances can be carried forward if two-thirds of the services (in terms of dollar amounts) are provided by June 10 or if services are entirely completed during the period June through August.

Capital outlay items not received by June 30th will only be carried forward if included in an approved budget but delivery was delayed by the vendor. If not budgeted for this fiscal year, the purchase must be specifically approved and documented by the assigned DOA budget analyst. Supplies (i.e., stamps, printing, office supplies, etc.) purchased in excess of normal quantities ordered throughout the year must be justified.

**STATE OF WISCONSIN  
STATE ACCOUNTING MANUAL**

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Interagency transactions including General Services billing should be completed and closed in the fiscal year to which they pertain to the maximum extent possible. This is the responsibility of the encumbering agent.

For equipment rentals and lease purchases only the value of services received for the fiscal year can be charged to that year. Anticipation of future years' expense should not be charged to current year appropriations.

For aid to localities, other entities or individuals:

- a. Categorical aids intended to be recurring or paid in a specified year or biennium may not be carried forward unless payment was held for a reason outside the control of the agency.
- b. Reimbursement aids can be carried forward only to the extent necessary to reimburse for goods or services provided by the grantee before June 30, or to fulfill terms of a grant or aid contract that has a defined ending date. Grants may remain open beyond that fiscal year if circumstances (i.e., court proceedings, etc.) outside the agencies control require it. Calendar year contracts will not be carried into the fiscal year after their ending date unless circumstances beyond the agency's control require the encumbrance. (ss. 20.435 (2) contains special provisions for certain DHSS appropriations.)
- c. Construction type aids can be carried forward if an executed contract or award provides a definite ending date to fulfill terms of an agreement.
- d. Unearned funds from such grants shall lapse.

For non-aid contracts with governmental and private organizations:

- a. Funds may be carried forward only to the extent necessary to reimburse for goods or services provided by the contractor before June 30th where an ongoing program or contractor relationship is involved.
- b. Funding may be carried forward for a non-continuing program or contractor relationship to the end of the grant year beyond the fiscal year ending.
- c. Funding for calendar (or other than June 30) contracts will not be carried into the fiscal year after their ending date unless circumstances beyond the agency's control require the encumbrance. (Specific statutory provisions are in effect for certain DHSS appropriations.)
- d. Unearned funds from such contracts shall lapse.

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**STATE OF WISCONSIN  
STATE ACCOUNTING MANUAL**

<b>SECTION:</b>	IV Encumbrances	<b>EFFECTIVE DATE:</b>	July 1, 1993
<b>SUB-SECTION:</b>	8 - Fiscal Year-End Review	<b>REVISION DATE:</b>	June 1, 1993
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**FISCAL YEAR-END REVIEW OF ENCUMBRANCES**

Year-end General Purpose Revenue (GPR) and Program Revenue (PR) annual encumbrances will be reviewed by the SCO in accordance with ss. 16.52 (6) (a). The review of encumbrances for each fiscal year is a three stage process. The process requires agencies to assist the SCO in the analysis of encumbrances to be carried forward as follows:

- Last Day of April: Each agency should review all outstanding encumbrances issued in the prior year and carried into the current year. For all encumbrances still outstanding, the agency should contact the program personnel and/or vendor to expedite the liquidation of the encumbrance by the end of the current fiscal year. If the encumbrance is to be carried forward for a second year or more, it must be justified in an explanation to the SCO by May 31, in a format of agency choosing. All encumbrances issued before the end of the current fiscal year, that may be carried forward into a new fiscal year should be justified within the agency and are subject to SCO review.
- May and June: SCO will review all purchase orders, printing orders and contracts submitted for encumbering in May and June. June 10th is the last date allowed for submitting encumbrances for the current fiscal year.
- September 1-15: SCO will analyze GPR lapsing appropriations and PR annual appropriations with increased levels of encumbrance carryover balances over previous fiscal years and request justifications and/or explanations.

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**STATE OF WISCONSIN  
STATE ACCOUNTING MANUAL**

<b>SECTION:</b>	IV Encumbrances	<b>EFFECTIVE DATE:</b>	July 1, 1993
<b>SUB-SECTION:</b>	9 - Cancellation of Prior Year Encumbrances	<b>REVISION DATE:</b>	July 1, 1993
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**CANCELLATION OF PRIOR YEAR ENCUMBRANCES**

Rules regarding canceling prior year encumbrances differ by type of appropriation. If encumbrance and allotment authority have been carried over from the previous fiscal year, the funds can be used for the encumbered purpose only. If a residual encumbrance balance exists after payment is made during the current year, the encumbrance should be canceled as follows:

Annual Appropriation      The encumbrance lapses at the end of the current fiscal year.

Biennial Appropriation

1st year:      The encumbrance lapses at the end of the biennium.  
2nd year:      Encumbrance carryovers from first year of biennium can be canceled at any time during second year of biennium.

Continuing  
Appropriation      The encumbrance can be canceled at any time.

Outstanding encumbrances on the encumbrance cutoff reports for June should be carefully reviewed in order to determine whether any of the items on the SCO's record should be liquidated.

When liquidating prior year encumbrances carried forward from appropriations which, by definition, lapse at the close of the fiscal year in which the encumbrance was created, all unused funds must be lapsed and cannot be used for other program purposes. The SCO can lapse funds only during the year end closing process, therefore, agencies should only liquidate actual amounts expended during the fiscal year. Any remaining balances after the final payment has been made, should be liquidated during the month of July. In addition, carry-forward funds can only be used for their specific planned purpose. Any changes in plans (items and/or services) should result in lapsing of the funds. Conditions such as vendor's inability to deliver may result in a change in vendors without necessitating the lapsing of funds provided the goods and intended purpose remain the same. In such cases, an explanation of the change should be submitted with the transaction.

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**ATTACHMENT II**

DOA APPROVED EXCEPTIONS

Special Process - Purchase orders issued from June 1, 2006 through June 29, 2006.

The Department of Administration has issued instructions that all agencies are to cut off entry of encumbrances (purchase orders) on May 31, 2006. DOA has also instructed us that only "Goods or services related to the normal operations of the agency that are received, consumed, and paid before the SFY 06 keying cutoff date of June 29, 2006 can be charged to SFY 06."

To be more specific, the following types of encumbrances may require purchase order preparation after May 31, 2006.

1. Institutions will need to purchase perishable food items and food items needed for special activities. Items of this nature must be utilized in June 2006.
2. Purchase of needed drugs will occur between June 1, 2006 and June 29, 2006. If used during June 2006, purchase orders may be issued to vendors.
3. There are instances when purchases of emergency medical services are necessary. Purchase orders can be issued to ensure the well being of our residents.
4. Travel costs to be billed directly to the Department, incurred during June 2006, can be charged to SFY 06. Purchase orders can be prepared for June travel costs -- lodging, airfare, etc.

**NOTE: LAST DATE TO KEY SFY 06 TRAVEL VOUCHERS WILL BE JUNE 23, 2006. ANY TRAVEL VOUCHER NOT KEYED BY JUNE 23, 2006, WILL BE CHARGED TO SFY 2007.**

5. Emergency repairs and maintenance activities that need to occur to allow for continued operations.
6. Specific training requirements mandated by union contracts may require issuance of purchase orders.

Each issuance of a purchase order will be judged on the merits of the situation. Additional exceptions may be requested. Requestor shall contact Jean Gevelinger to initiate request.